

### PRESENTATION SESSION #1



Facilities/Incentives to be covered:

- A) Introduction on MIDA
- B) Tax Incentives for
  - I. R&D Entities
  - II. Commercialization of R&D
    Findings in Resources-based
    Industries and Non Resourcebased Industries

- C) Grants
  - I. Grants under Industry4WRD
    - Intervention Fund
    - Domestic Investment Strategic
       Fund (DISF)
  - **II. Smart Automation Grant (SAG)**

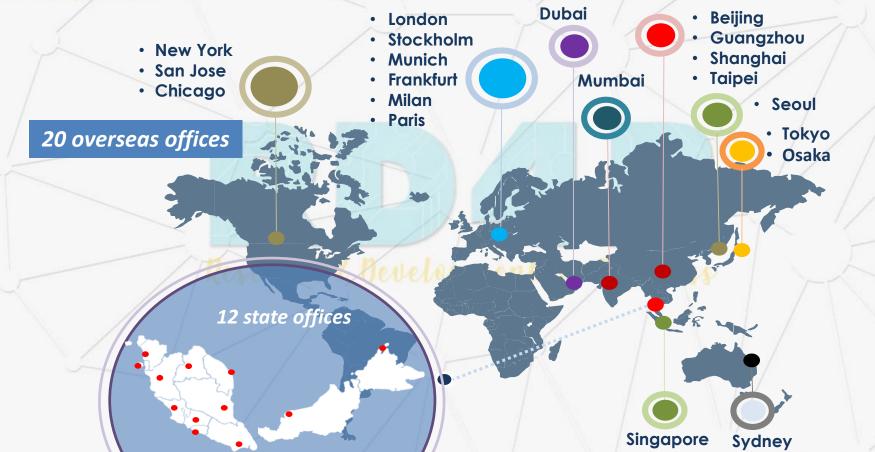
By Mrs Siti Halimaton Mohd Rejab,
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Malaysian Investment Development Authority (MIDA)





### **Our Presence**







## Promotion to Implementation MIDA





### **PROMOTION**

- One-On-One Meetings
- Seminars and Briefings
- Roundtable Meetings (RTM)
- Data on Industries
- Meetings with Companies Operating in Malaysia
- Visits to Production Facilities and Service Providers
- Visits to potential locations



### **APPROVAL**

- Manufacturing License
- Tax Incentives
- **Expatriate Posts**
- Import Duty Exemptions
- Representative/Regional (RE/RO) Office
- Principal Hub/OHQ



### **IMPLEMENTATION**

- Handholding (MIDA State Offices)
- **Industry Talent Management**
- Post Investment
- Incentives Coordination and Collaboration Office (ICCO)
- Compliance and Monitoring





## Tax Incentives for R&D Entities

Research & Bevelopment for Basiness



## Definition of R&D activities under the Promotion of Investments Act, 1986



Research and development (R&D) means any systematic, investigative and experimental study that involves <u>novelty</u> or <u>technical risk</u> carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include:

- a) quality control or routine testing of materials, devices or products;
- b) research in the social sciences or the humanities;
- c) routine data collection;
- d) efficiency surveys or management studies;
- e) market research or sales promotion;

- f) routine modifications or changes to materials, devices, products, processes or production methods, or
- g) cosmetic modifications or stylistic changes to materials, devices, devices, products, processes or production methods.

**Note:** MIDA's definition of R&D is in line with LHDNM as the amendment of the R&D definition was made for both Promotion of Investments Act 1986 and Income Tax Act 1967 through the **Finance Bill 2018** 



## Provision of R&D Status for New and Existing R&D Providers





### **R&D Status**



Research & Bevelop

Fulfillment of definition as approved R&D Status Company

### **R&D STATUS**

- ☐ Fulfillment of <u>definition</u> as R&D STATUS COMPANY
- ☐ Contract R&D and R&D Company can apply for only R&D Status if it chooses not to avail itself to the incentive
- □ Clients can claim DOUBLE DEDUCTION on approved R&D expenditure



## Type of R&D Entities

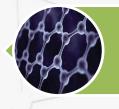




### **Contract R&D**



A company which provides R&D services in Malaysia only to a <u>company other than its related company</u>



### **R&D Company**



A company which provides R&D services in Malaysia to its <u>related companies</u> or to <u>any other company</u>



In-house R&D



Companies that carry out R&D within the company in Malaysia for its own business



## New Investment / Reinvestment for R&D Providers or In-House R&D



### **R&D COMPANY**

☐ Tax incentives :

assessment

INVESTMENT TAX
ALLOWANCE (ITA) of 100% of qualifying capital expenditure incurred within a period of 10 years and can be offset against 70% of statutory

income for each year of

☐ Clients (unrelated to R&D Company) can claim DOUBLE DEDUCTION on approved R&D expenditure

### **CONTRACT R&D**

- ☐ Tax incentives :
  - PIONEER STATUS (PS) with income tax exemption of 100% on statutory income for 5 years

    OR

INVESTMENT TAX ALLOWANCE (ITA) of 100% of qualifying capital expenditure incurred within a period of 10 years and can be offset against 70% of statutory income for each year of assessment

☐ Clients can claim DOUBLE DEDUCTION on approved R&D expenditure

### **IN-HOUSE R&D**

□ Tax incentives : INVESTMENT TAX **ALLOWANCE** (ITA) of 50% of qualifying capital expenditure incurred within a period of 10 years, the ITA can offset against 70% statutory income for each year of assessment



## Eligibility Criteria for R&D Status and Tax Incentives





### **R&D Status**



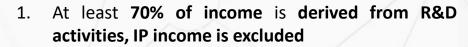
### **Contract R&D**



### **R&D Company**



In-house R&D



- 2. For manufacturing-based R&D, at least 50% of the workforce must be qualified full-time employees (FTE) performing R&D and technical functions. (For agriculture-based R&D, at least 5%)
- 3. At least 80% of company's FTE must be Malaysians
- 4. Company must incur adequate amount of operating expenditure annually to support the company in conducting its R&D services activities/business operation in Malaysia



R&D carried out for own business





## Incentives for Commercialisation of R&D Findings in Resources-based Industries and Non Resource-based Industries

Research & Bevelopment for Business



## Commercialisation of R&D Findings



The commercialisation includes the process of transforming ideas, knowledge or an invention into a product or process that has an industrial application or that is marketable.

Investing Company (Holding Company)

□ Tax deduction equivalent to the amount of investment (in terms of equity or cash contribution only) made in working capital and qualifying capital expenditure for the subsidiary company. **Subsidiary Company (Undertaking the commercialisation project)** 

- □ Pioneer Status of 100% tax exemption on statutory income for 10 years. (Unabsorbed capital allowances and accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company)
  - The tax relief period for Pioneer Status will commence from the commercial production date.

The commercialisation project should be implemented within one (1) year from the date of approval.



### **Eligibility Requirement**



## Investing Company (Holding Company)

A locally-owned company with at least 70% Malaysian equity ownership





Owns at least 70% of the equity of the company that undertakes the commercialisation of the R&D findings

**Subsidiary Company (Undertaking the commercialisation project)** 



A locally-owned company with at least 70% Malaysian equity ownership.

The company which undertakes the commercialisation of R&D project must submit a copy of the relevant agreement signed with the approved research institutions on collaboration or licensing.



## **Eligible Activity**



ORGANISATION	RESOURCE-BASED INDUSTRIES	NON-RESOURCE BASED
		INDUSTRIES
Public Research Institutions/ Public Higher Learning Institutions	<ul> <li>Resource-based R&amp;D to cover research in the following sectors:         <ul> <li>Agriculture; and agriculture and food processing;</li> <li>Oil palm products;</li> <li>Wood and wood-based products;</li> <li>Rubber-based products;</li> <li>Non-metallic mineral products; and</li> <li>Natural products including pharmaceuticals</li> </ul> </li> <li>R&amp;D on natural resources such as water, air, lightning and solar are also eligible for the incentives.</li> <li>Not limited to the promoted products/activities under the Promotion of Investments Act, 1986.</li> </ul>	Limited to promoted activities listed under PIA 1986.
Private Higher Learning Institutions	Limited to promoted activities listed under PIA 1986	





### Industry4WRD Intervention Fund M )



- ☐ To encourage more local small and medium enterprises (SMEs) stakeholders within the manufacturing and related services sectors to embrace Industry 4.0
- ☐ Up to a maximum grant of Ringgit Malaysia Five Hundred Thousand (RM500,000.00)
- Eligible only to companies that have undergone the Industry 4WRD Readiness Assessment (RA) programme
- Malaysian equity ownership of at least 60%
- Effective date of application is from the date of approval of Industry4WRD RA Report (MPC's letter) until 31 December 2021

fund evaluated by MIDA

Matching grant (70:30) on reimbursable basis

> for the eligible expenditures

> > 30% borne by Company

70% subsidized by Government



## Industry4WRD Intervention Fund



### **Eligibility Requirement**





Manufacturing or Small & Medium manufacturingrelated services (MRS) companies incorporated under the Companies Act, 2016 employee from 5 to



Enterprises (SMEs) Manufacturing: Sales turnover from RM300,000 to not more than RM50 million and/or

 MRS: Sales turnover from RM300,000 to not more than RM20 million and/or employee from 5 to not more than 75

not more than 200



In operation for at least three years in the current business line



Possess a valid business licence and/or Manufacturing Licence



Completed the Government-funded Industry4WRD Readiness Assessment (RA) Programmereceived a report from the Malaysia Productivity Corporation (MPC)





### **Process Flow**





Received RA Report from MPC





Submit application of Intervention Fund to MIDA





The application will be presented at the Industry4WRD Intervention Fund Approval Committee (IIFC) at MITI





Company submits claim for remaining grant to MIDA



Audit visit by MIDA and RA Assessor Body

Company

grant from

receives

upfront

MIDA





The application of claim will be deliberated at JPPG at MIDA





Upon approval of JPPG, company remaining grant



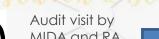


MIDA and Company to sign the grant agreement





Upon approval by IIFC, MIDA to send approval letter and grant agreement to company













JPPG = Coordination & Disbursement of Grants Committee







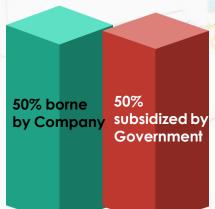
# Domestic Investment Strategic Fund (DISF) and Industry4WRD DISF



## Domestic Investment Strategic Fund MIDD DISE (DISF) and Industry4WRD DISF



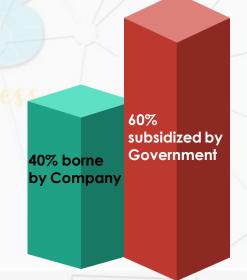
DISF Matching grant (50:50) on reimbursable basis for the eligible expenditures



- Objective is to assist companies to migrate into Industry 4.0.
- Eligible only to companies that have undergone the Industry4WRD Readiness Assessment (RA) programme
- Malaysian equity ownership of at least 60%
- Effective date of application is from the date of approval of Industry4WRD RA Report (MPC's letter) until 31 December 2021



Industry4WRD DISF Matching grant (60:40) on reimbursable basis for the eligible expenditures





## Domestic Investment Strategic Fund (DISF) and Industry4WRD DISF



### What are the eligible expenditure?

The grants are rewarded on a matching basis based on reimbursable basis for the following activities

R&D activities

Training activities

Modernization
/ Upgrading
facilities &
equipment

Licensing or Purchase of New / High Technology

Obtaining
International
Standards /
Certifications

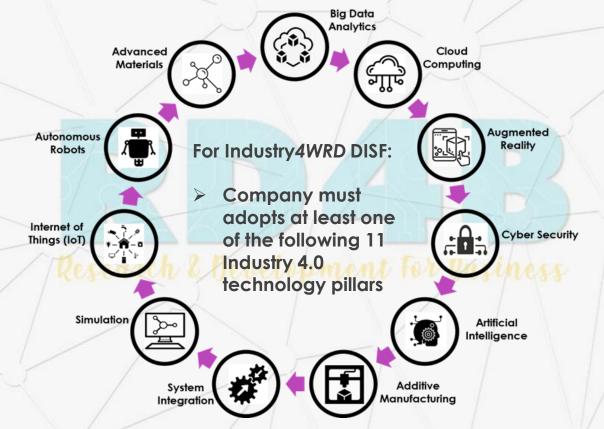
### For Industry4WRD DISF:

These expenditures must be related to Industry 4.0 and inline with the recommendations in the Readiness Assessment (RA) Report



### **Industry 4.0 Technology Pillars**









## **Smart Automation Grant (SAG)**

Research & Bevelopment for Basiness



SAG

**OBJECTIVES** 

### **Initiatives Under PENJANA**



 The Smart Automation Grant will be given on a matching basis (1:1) based on eligible expenditures, up to a maximum grant of Ringgit Malaysia One Million(RM1,000,000)per company.

### **ASISSTING LOCAL SMES AND MTCs**

Incentivise Small and Medium Enterprises (SMEs) and Mid-Tier Companies (MTCs) to automate and digitalise operations, production and trade channels.

### FOREIGN WORKERS

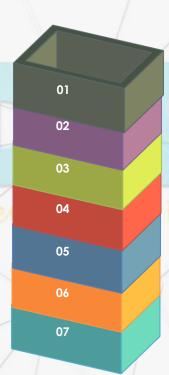
To reduce reliance on low-skilled foreign workers

### **INCREASE COMPETITIVENESS**

To enhance SME competitiveness on an international level.

### LOCAL SPILLOVER

To boost domestic investment



### PRODUCTIVITY IMPROVEMENT

To improve efficiency in the manufacturing and services sector

### **JOB CREATIONS**

To provide job opportunities in high value-added sectors.

### NATION OF THE FUTURE

To be aligned with the National Policy on Industry 4.0.



### **SAG Eligibility Criteria**





1. Incorporated under the Companies Act, 1965/2016.





2. Malaysian owned (at least 51%).





Possesses a valid Business Licence





The company must engage in the following activities:



a. Manufacturing activity in compliance with the Industrial Co-ordination Act, 1975; or



b. Services activities which must be regulated by specific acts/ regulations or governed by relevant ministries/agencies.



Eligible for SMEs and MTCs only.









Meet at least one of the Committed Deliverables





### **SAG Committed Deliverables**





### REDUCTION OF UNSKILEED WORKERS

Percentage of reduction of workers after the use of equipment/machine/software

 $(W1 - W2)/W1 \times 100$ 

Examples of documents to be audited (before and after):

- Organization chart
- Monthly report on work sheet schedule



#### **REDUCTION IN MAN HOURS**

Percentage of reduction in number of hours worked to produce 1 item or batch of item after the use of equipment/machine/software

 $(M1 - M2)/M1 \times 100$ 

Examples of documents to be audited (before and after):

- Employee record (punch card/ID card/thumb print record
- Relocation of employees (transfer order)



### INCREASE IN PRODUCTION VOLUME

Percentage of increase in production volume as a result of the use of equipment/machine/ software

 $(V2 - V1)/V1 \times 100$ 

Examples of documents to be audited (before and after):

- Yield / Production report
- Sales Order / Clients Oder
- Delivery Order
- Inventory Report



### QUALITY IMPOROVEMENT -REDUCTION IN DEFECT RATE

Percentage reduction of defect rate as a result of the use of equipment/machine/software

 $(D1 - D2)/D1 \times 100$ 

Examples of documents to be audited (before and after):

- Monthly QC report
- Quality Control records/ analysis/ statistic (i.e. sampling, defect collection or handling clients complaint)



### INCREASE IN SERVICES DELIVERY

Percentage of increase in services delivery as a result of the use of equipment/machine/software

 $(S2 - S1)/S1 \times 100$ 



### REDUCTION OF MAN HOURS IN DELIVERING SERVICES

Percentage of reduction in number of hours worked to deliver after the use of equipment/machine

 $(M1 - M2)/M1 \times 100$ 

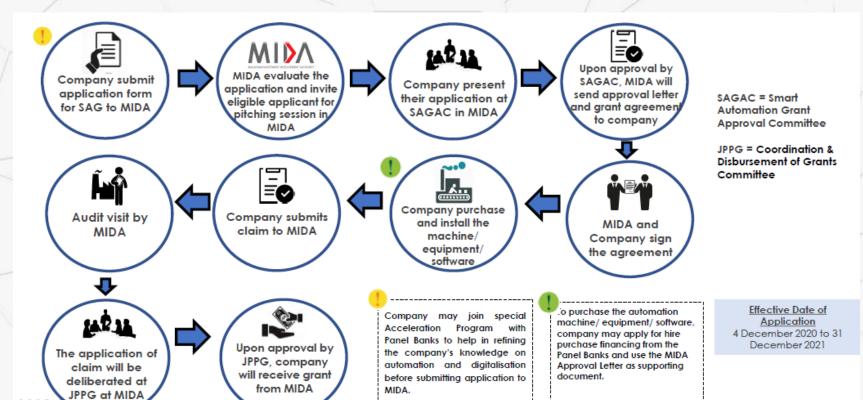


Company is required to meet at least one of the Committed Deliverables



### **SAG Process Flow**









## **THANK YOU**

### **Contact Details:**

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